

KATIE HOBBS  
Governor



JOAN SERVISS  
Director

STATE OF ARIZONA  
DEPARTMENT OF HOUSING

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September 24, 2024

Lindsey Perry, CPA, CFE  
Auditor General  
Arizona Office of the Auditor General  
2910 North 44th Street, Suite 410  
Phoenix, Arizona 85018

RE: Auditor General's report, Arizona Department of Housing – Sunset Factors

Dear Ms. Perry:

The Arizona Department of Housing (ADOH) has reviewed the Auditor General's report, *Arizona Department of Housing – Sunset Factors*. The Department is committed to ongoing improvement opportunities and will implement your recommendations as outlined in our response. The responses to the findings and recommendations are enclosed.

The Department appreciates the diligence and collaboration of the Office of Auditor General staff during the Sunset Review process.

Sincerely,

A handwritten signature in black ink, appearing to read "Joan Serviss".

Joan Serviss, Director  
Arizona Department of Housing

Enclosure: ADOH Recommendation Response

**Finding 1:** Department's goals and performance measures for some housing programs need improvement, and it lacks a process to systematically and comprehensively evaluate program performance, limiting its ability to ensure and demonstrate its programs are effectively addressing the State's housing problems

**Recommendation 1:** The Department should develop and implement a formal plan to revise its Balance of State Continuum of Care goals, targets, and review of performance measures and outcomes to include:

**Recommendation 1a:** Measurable goals and targets with benchmarks for reviewing desired performance.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department agrees with setting measurable goals and targets with benchmarks to review outcomes for the Arizona Balance of State Continuum of Care (AZBOSCO) through its Governance Advisory Board (GAB). The GAB recently established goals for the AZBOSCO, the Department will work with the GAB to establish SMART goals in the future.

**Recommendation 1b:** Tracking and review of performance measures and outcomes on an established time frame.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department agrees with tracking and reviewing performance measures and outcomes on an established time frame for the AZBOSCO through its GAB. The Department will work with the GAB to establish a time frame.

**Recommendation 1c:** Time frame for updating goals.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department agrees with updating goals on an established time frame and has begun working with the AZBOSCO GAB to establish regular meetings and structure for goal setting.

**Recommendation 2:** The Department should develop and implement a process to systematically track its permanent supportive housing expenditures, including processes for establishing permanent supportive housing expenditure input, output, and outcome measures for each Department program with permanent supportive housing goals.

Department response: The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

Response explanation: The AZBOSCO develops goals around permanent supportive housing (PSH) and as such, the Department, as the administrative entity supporting the AZBOSCO, will

track PSH expenditures. However, as a Department, we have not established PSH as a Department-wide prioritization and thus do not track PSH projects within our rental housing programs.

**Recommendation 3:** The Department should develop and implement a documented comprehensive performance measurement system Department-wide and for its programs, including Department-wide and program-specific guidance that includes processes for:

**Recommendation 3a:** Establishing specific and measurable Department-wide and program performance goals or targets and performance measures to track and evaluate goal and target outcomes.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Coupled with the strategic plan, and other governing programmatic requirements, such as regulatory oversight by the Department of Housing and Urban Development (HUD) and state statutory requirements, the Department will implement SMART goals with respect to our defined housing programs to capture successes and measurable outcomes.

**Recommendation 3b:** Systematically tracking and assessing performance measures and outcomes for all Department-wide and program performance goals and targets.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: See response 3a. In addition to the Department's established strategic plan, the Department will track and assess SMART goals and federal goals in our current internal project management systems.

**Recommendation 3c:** Conducting periodic evaluations of the Department and each program to assess the extent to which the Department and Department programs are meeting their intended purposes, and make timely modifications to those programs as necessary.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: See responses 3a and 3b. The Department will use our strategic plan, federal goals, and internal project management systems to assess annually and make timely modifications to our programs as a result of our evaluation.

**Sunset Factor 2:** The Department's effectiveness and efficiency in fulfilling its key statutory objectives and purposes.

**Recommendation 4:** The Department should develop and implement policies and procedures that require:

- The use of a secure method to obtain and verify wire transfer bank instructions.
- All changes in wire transfer bank instructions to be reviewed and approved by Department management prior to processing wire transfers.

- Timely notification to the Auditor General and other relevant State and law enforcement agencies when it becomes aware of potential fraud, theft, waste, and/or abuse, consistent with the SAAM.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department has established policies and procedures to prevent incidents of wire fraud. The policies include a secure method of obtaining and verifying wire transfer instructions. The policy has been updated to include notification protocols consistent with SAAM and how to address changes to wiring instructions. The updated policy has been shared Department-wide.

**Recommendation 5:** The Department should develop and implement periodic training for all relevant staff on the updated policies and procedures related to wire transfers.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department's fraud policies and procedures have been updated as of July 2024. The Department worked with the Arizona Department of Administration (ADOA) to recover the funds sent to the fraudulent actor(s), and also to ensure appropriate guardrails are in place with the Department's updated policy. With ADOA, the Department's division leadership provided appropriate staff with training on the updated policy. New staff who play a key role in financial management will also receive training on the Department's wire transfer procedures at onboarding time, and all staff with a financial management role will receive an annual reminder training.

**Recommendation 6:** The Department should revise and implement its policies and procedures for developing proposed fees to include a process to identify the costs of specific activities for which manufactured housing and building fees are charged and developing proposed fees for the Board that are commensurate with these costs, consistent with fee-setting standards and guidelines.

Department response: The finding of the Auditor General is not agreed to, and the recommendation will not be implemented.

Response explanation: The Board, which is the entity that stewards the policies and procedures of the Manufactured Housing and Building Division fee setting per state law, complies with §41-4010(A)(4) which requires that the Board establish fee revenue to be not less than 95 percent or more than 105 percent of anticipated expenses for the administration of inspections, licenses, permits, plan reviews, administrative functions, and certificates. All requirements of the statute have been fulfilled to include an assessment of the total annual income derived from such fees against the forecasted expenses. A mechanism is in place to capture all direct and indirect expenses and revenue in order for the Board's annual assessment and fee-setting requirements per §41-4010 (A)(4). The Board's annual fee-setting meeting is open to the public and allows the Board an opportunity to consider public feedback regarding fee changes.

**Recommendation 7:** The Department should comply with the reporting requirements outlined in A.R.S. §41-3955.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: During the audit years that this Sunset Report covered, the Department provided annual State Housing Trust Fund (HTF) reports to the parties listed in the statute that included grantee recipients; award amount for each grantee; project type; and activity. The Department has amended its FY24 report pursuant to A.R.S. §41-3955 to include the additional items listed in statute including a summary of facilities for which funding was provided during the preceding fiscal year, the cost and geographic location of each facility and the number of individuals benefiting from the operation, construction or renovation of the facility. The Department will also expand the report to include the number of individuals who benefit from housing assistance provided by HTF.

**Recommendation 8:** The Department should align its federal Low Income Housing Tax Credit program report pursuant to A.R.S. §35-728(D) with recommended practices by developing, evaluating, and reporting outcome measures related to the program's performance.

Department response: The finding of the Auditor General is not agreed to and the recommendation will not be implemented.

Response explanation: The Department will continue to produce an annual report in compliance with the statute, that lists the projects funded under the federal and state LIHTC funding rounds for the previous annual cycle and include total development cost. The Department will assess outcomes as part of an annual evaluation process, which includes analyzing the report, market conditions, and stakeholder feedback, and make revisions and modifications as appropriate in the Qualified Allocation Plan.

**Sunset Factor 4:** The extent to which rules adopted by the Department are consistent with the legislative mandate.

**Recommendation 9:** The Board should adopt rules as required by A.R.S. §§41-4032, 41-4036, and 41-4030. If the Board and/or Department believe that changes to these statutory requirements are needed to remove the requirement to establish rules, they should work with the Legislature to modify statute.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department will continue to pursue statutory changes with the Legislature to remove the unnecessary statutes, or in consultation with the Board, will pursue rule changes.

**Sunset Factor 5:** The extent to which the Department has provided appropriate public access to records, meetings, and rulemaking, including soliciting public input in making rules and decisions.

**Recommendation 10:** The Department should comply with its public records request policies and procedures, including providing written notice to requestors when a public records request will take more than 5 business days to fulfill.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: A Department-wide reminder was issued on July 23, 2024, of its public record request (PRR) policies. The Department will continue to follow established public records processes and staff will update our internal PRR log with a note if a request will take longer than five (5) days, including the date of a response to the requestor informing them of the timing, regardless of whether or not the requestor made an inquiry as to timing.

**Sunset Factor 6:** The extent to which the Department timely investigated and resolved complaints that are within its jurisdiction.

**Recommendation 11:** The Department should assign responsibility to resolve consumer manufactured home complaints within 120 days, as required by federal regulations, or work with HUD to update or develop and implement additional written policies, procedures, and/or guidance for determining when to pause the 120-day time frame.

Department response: The finding of the Auditor General is not agreed to and the recommendation will not be implemented.

Response explanation: Responsibility is only assigned if a complaint progresses to a Verification and Sign Off Inspection which is the HUD-approved Dispute Resolution Program. The Verification and Sign-Off Inspection is initiated when communication ceases between the consumer and licensee or disagreements occur pertaining to what work is required or what licensee holds responsibility. HUD strongly encourages, per 24 CFR 3288, communication and resolution between the consumer and licensee prior to getting involved. The Department administers the HUD Dispute Program on HUD's behalf.

**Recommendation 12:** The Department should work with HUD to update or develop and implement additional written policies, procedures, and/or guidance to include time frames for all steps in its manufactured home complaint process, including when the Department should contact licensees to timely notify them of complaints.

Department response: The finding of the Auditor General is not agreed to and the recommendation will not be implemented.

Response explanation: As a State Administrative Agency, and administrator of HUD's federal guidelines, the State Plan and Dispute Resolution Program complaint process is active, contains numerous steps and timelines and is approved by HUD per 24 CFR 3288. HUD does not require establishing time frames for all steps as indicated.

**Sunset Factor 8:** The extent to which the Department has established safeguards against possible conflicts of interest.

**Recommendation 13:** The Department should continue to implement the annual conflict-of-interest process it developed during the audit, including requiring all staff to complete a conflict-of-interest form annually, reviewing all forms to determine whether there are any substantial interest disclosures, and maintaining a special file of all substantial interest disclosures.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: As of May 2024, the Department has revised and implemented our conflict-of-interest policies and procedures, requiring all staff to complete a conflict-of-interest form

annually. All forms will be reviewed to determine whether there are any substantial interest disclosures.